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GOVERNMENT OF INDIA.

FINANCE DEPARTMENT.

**SPEECH OF THE FINANCE MEMBER INTRODUCING THE
BUDGET FOR 1929-30.**

Speech of the Finance Member

introducing the

Budget for 1929-30.

INTRODUCTORY.

Sir, as this is the first occasion on which I have the honour of making a budget speech, I must regard it as my maiden effort, although I have already had occasion to address this House.

2. I may perhaps therefore be allowed to commence on a personal note. I address you with a due sense of humility, seeing that I come as a complete stranger to discharge this onerous and responsible duty. But this has at least a compensating advantage, for, in some ways, a stranger is in a privileged position. I already have had reason to appreciate from my own experience in other countries the hospitality of the East, and therefore, as a stranger, I know that I can count on a courteous welcome and a friendly hearing. It will be my constant endeavour to deserve a no less friendly reception when I cease to be able to claim the consideration due to a novice and have to be judged by you according to your knowledge of my actions. The success of a Finance Member in such a country as this lies not so much with himself as with the favour of Providence that determines the seasons. If my period of office is blessed with a series of good monsoons, my task may be comparatively easy. If not, I know that I may have to encounter difficulties. But difficulties are also opportunities, for, it is by these that a system is tested, and success in overcoming them may lead to its permanent strengthening. From my first view of the position, I do not think that the time before us now is one for the achievement of spectacular results nor should I wish to claim the credit for them if they were achieved. If I have an ambition, it is this, that whether we encounter bad seasons or good, you should be able to say of me when my work is done, that I served your country at least to the utmost of my powers and that in all that I did, my main thought was for the interests of the people of India. I must now turn to the dry details of my task.

3. The revised estimates for 1927-28 provided for a total revenue of 1,27.74 crores and a total expenditure of the same amount, the revenue including an appropriation of 1.69 lakhs from the Revenue Reserve Fund, which stood at 2.96 lakhs at the beginning of the year. The final figures show a total expenditure of 1,27.26 crores and in order to bring the revenue up to this figure it was necessary to increase the appropriation from the Revenue Reserve Fund from 1.69 lakhs as originally estimated to 2.22 lakhs. The deterioration in the revenue position as compared with that forecasted a year ago has thus amounted to 53 lakhs, which is mainly accounted for by a throw-forward of 40 lakhs representing land customs collections at Viramgam from 1927-28 to the current year. This has reduced the balance now at credit of the Revenue Reserve Fund to 74 lakhs.

Review of the year 1928-29.

4. I think I can most fairly describe general conditions. the financial year which is now drawing to a close by saying that they have been bad in patches, but that it would be a mistake to assess the general position from a contemplation of these bad patches, and to say that, viewed as a whole, it gives ground for serious pessimism. During the months of June to September the monsoon was on the whole fairly active except in parts of Northern India, where a marked drought was experienced, and just in these areas the recent exceptional cold wave and frost have produced serious losses of crops in certain localities. It is difficult as yet to estimate how far these will have any general effect on the balance of trade and the ways and means position. But these factors certainly give ground for caution in making revenue forecasts. The year was also disturbed by prolonged strikes in various parts of the country, and particularly in the cotton mill industry of Bombay. In spite of all this, the trade statistics so far available are, on the whole, encouraging. The visible balance

of trade, including private imports of treasure, for the nine months ended the 31st December 1928, was in favour of India by 39·77 crores against 33·07 crores in 1927 and 22·55 crores in 1926. Exports of Indian merchandise show an improvement of over 10 crores as compared with 1927. It is particularly satisfactory to observe that the exports of cotton have risen from 28 to 43½ crores, while those of jute and jute manufactures and of seeds also record an improvement of 5 crores and 3½ crores respectively. Exports of rice, however, have gone down by as much as 7 crores, as a result mainly of Japan's temporary prohibition of imports of the commodity into that country and of the increasing competition of the rice-producing countries on the Mediterranean seaboard. Wheat has been seriously affected by unfavourable climatic conditions, so much so that considerable quantities have had to be imported, while exports have fallen by about 2½ crores.

5. The imports as a whole show a fall of about a crore—the result of a drop in cotton and cotton-yarn and manufactures, counter-balanced to a large extent by a rise in the imports of grain, machinery and vehicles. The two items last mentioned are particularly interesting. Imports of machinery show a rise of about 16 per cent. for which the recent abolition of duty is, no doubt, largely responsible. The number of motor-cars and commercial motor vehicles, which came into the country during the nine months, also shows an improvement of as much as 38 per cent., although the amount of duty collected is still slightly less than the figure for 1926. I have every hope that the leeway will be made up and that our customs revenue will soon begin to benefit more largely from this source. Prices in general continued to remain fairly stable.

6. Money conditions have at times been difficult and in the last weeks have been affected by world conditions which themselves have been largely governed by the situation in the United States. The enormous volume of speculation there has tended to force up rates for money in all countries engaged in international trade, and this is the root cause to which the recent rise in the bank rate of the Imperial Bank to 8 per cent. must be attributed. I do not wish to enter into any detailed disquisitions on this subject now, but I would call attention to one point only

which seems to have missed the attention of those who have criticised this action. It has been said that it was normally understood that the rate would not rise to 8 per cent. until expansion of currency against commercial bills had reached its full limit of 12 crores, and that, in the recent case, the rate was raised after only 9 crores of expansion had taken place. It must, however, be remembered that this year Government had expanded currency to the extent of 1 crore against sterling and 1 crore against created securities and that there had been a further expansion of 2·4 crores against imported gold, so that the total expansion had really been well over 13 crores.

REVENUE, 1928-29.

7. The net customs receipts for the year were taken at 50·18 crores and I now put the revised estimate at 20 lakhs less. Larger imports of sugar and of mineral oils have increased the receipts by 70 lakhs and 28 lakhs respectively, while the land customs collections show an improvement of 70 lakhs, including the 40 lakhs thrown forward from last year. Excise duty on motor spirit is also expected to yield an additional 29 lakhs. On the other hand, cotton piecegoods and protective special duties relating to iron and steel show a deterioration of 40 lakhs and 42 lakhs respectively, while matches, the export duty on rice, and the excise duty on kerosene, have all been on the downward grade.

8. I have taken the revised estimate under Taxes on Income at 16½ crores against the budget figure of 17 crores. The reduction is mainly accounted for by certain large refunds which have had to be made as a result of legal decisions.

9. Owing to an unexpected and considerable amount of speculation at Sambhar, the estimate of salt revenue, which was originally taken at 7 crores, will probably be exceeded by about 65 lakhs in the current year. But as I do not think it safe to calculate on an average revenue of more than 7 crores, I am forced to treat the extra 65 lakhs, which we expect to collect in the current year, as being gained at the expense of next year, the estimate for which must be reduced accordingly. This unexpected

factor seriously disturbs the distribution of revenue as between the current year and next year, and I shall have to refer to this point again.

10. The only item which needs comment is that of interest receipts which shows an improvement of as much as 66 lakhs, but this should really be set against a counterbalancing increase in interest payments to which I shall presently refer.

EXPENDITURE, 1928-29.

11. The gross payments on account of interest on ordinary debt have exceeded the budget figure by 1,33 lakhs as a result mainly of the larger magnitude of our borrowing operations and a small increase in our borrowing rate. But the net payments, after deducting recoveries from the Commercial Departments and the Provincial Loans Fund, show a deterioration of 65 lakhs only, which, as I have already stated, is covered by the increase in interest receipts. I would take this opportunity of explaining to the House that the net payments would have been considerably larger but for a change which I have introduced in the method of calculating the interest chargeable to Commercial Departments in respect of capital outlay incurred after the 31st March 1917, whereby they are required to share the loss which the general revenues suffer through the tax-free concession attached to certain portions of our rupee debt. This alteration has increased the recoveries from the Railways to the extent of 59 lakhs under this head, although it has had the simultaneous effect of reducing the railway contribution otherwise receivable by about 20 lakhs. The former method of calculation was really erroneous, as it meant that Government did not actually recover from the Commercial Departments the interest which they were in effect themselves paying. It is reassuring to know that in spite of the additional payment which the correction of this error involves, the actual rate of interest to be paid by the Commercial Departments for the forthcoming year will be less than it was two years ago. For 1926-27 the rate was 5.43 per cent., for 1927-28 5.38 per cent., and for 1929-30 it will be 5.32 per cent.

12. The only important variations from the original estimate are a saving of 22 lakhs in opium expenditure, which has resulted

from short deliveries and poorer output, and another of 21 lakhs under Civil Administration, which includes 7 lakhs on account of a carry-forward of the expenditure on the India House to next year.

Departmental transactions, 1928-29.

13. As the House is already aware, the railway contribution is now estimated at 5.46 crores, which is only a little less than the budget figure of 5.48 crores. The present estimate includes 23 lakhs, being one-third of the excess over 3 crores available for transfer to the Railway Reserve Fund.

14. The working of the Indian Posts and Telegraphs Department is now expected to show a loss of 29 lakhs, which is very disappointing considering that a year ago it was expected that a surplus of a few thousands would accrue. The deterioration is mainly accounted for by the facts that the reduction in the rate for foreign telegrams has not been counter-balanced by a corresponding growth in traffic, and that the effect of the numerous revisions of pay and other concessions granted to the staff in recent years was, to some extent, under-estimated. The Indo-European Telegraph Department does not show any appreciable variation on the whole and will involve a loss of about 7½ lakhs.

15. The net military expenditure has been taken at 55.10 crores as in the original budget. I shall give a fuller explanation of the military expenditure item when dealing with the budget estimates for 1929-30.

16. The main variations may now be summarised as follows:—

	(In lakhs of rupees.)	
	Better.	Worse.
Revenue from Customs	..	20
Revenue from Taxes on Income	..	50
Revenue from Salt	65	..
Revenue from Interest	66	..
Expenditure on account of Opium	22	..
Expenditure on account of Interest on Debt	..	65
Expenditure on Civil Administration	21	..
Loss on the working of the Posts and Telegraphs Department	..	29
Other heads	15	..
Total	1,89	1,64
Net	25	

We thus expect to close the accounts for 1928-29 with a surplus of 30 lakhs instead of 5 lakhs previously estimated, and I propose that this sum should be credited to the Revenue Reserve Fund the balance to the credit of which will then stand at 1,04 lakhs.

BUDGET ESTIMATES for 1929-30.

17. I must preface my detailed account of the budget proposals for 1929-30 with certain preliminary explanations. For a proper understanding of the present position, I think one must go back to the remission of the provincial contributions which really became effective from the beginning of 1927-28, and one must consider the three years 1927-28, 1928-29 and 1929-30 together.

18. The way in which I would present the picture is this. As Hon'ble Members will recollect, the actual result for the year 1926-27 showed a surplus amounting to 2,96 lakhs and on the strength of this it was decided to remit (provisionally in the first place) the whole of the remaining provincial contributions, amounting to 2,58 lakhs per annum. It was recognised that if Government sacrificed this permanent revenue, there might at the outset be a deficit. But the intention was that the surplus of 2,96 lakhs in 1926-27 which was transferred to a special Revenue Reserve Fund, would provide a sufficient sum to bridge the gap until the normal growth of revenue had built up receipts to the requisite level. It was thought that the gap would not continue for more than one year and that by 1928-29 equilibrium would have been attained. On the revised estimates for 1928-29, which I have just dealt with, it might be said that this expectation has been fulfilled; but on a closer examination, it will be seen that the figures for 1928-29, taken by themselves, are really misleading. In fact, the revenue for 1928-29 has been fortuitously increased at the expense both of 1927-28 and of 1929-30. As I have already explained, it so happened that 40 lakhs of customs revenue which ought to have been received in 1927-28 were actually received only after the close of that year, and were thus credited to 1928-29. Further, as I have also already explained, owing to speculation in salt, the revenue from that source for 1928-29 is likely to receive 65 lakhs which, in normal circumstances, would not have been received until after the

close of the year and thus properly belongs to 1929-30. If, therefore, the true nature of the results for 1928-29 is revealed, it will be seen that, eliminating these two exceptional items totalling 1,05 lakhs, the year would have closed not with a surplus of 30 lakhs as our revised estimates show, but with a deficit of 75 lakhs. The gap left by the remission of the provincial contributions had not therefore really been filled in 1928-29 and the question which I have had to ask myself in settling the policy for the forthcoming year is whether the time has now come to decide that the original expectation cannot be realised, and that it will be necessary to find some new source of revenue. To answer this question we have to take account both of the revenue and expenditure sides, for it would be impossible to say that the gap had been satisfactorily filled if that could only be done at the cost of cutting out all items of beneficial expenditure which are really essential if the needs of the country are to be met.

19. What then is the answer to this question? Will it be necessary to impose new taxation now?

Sir, I believe it has been sometimes customary to keep the secret of the budget proposals as regards taxation till the closing paragraphs of the speech, so as to maintain the minds of Hon'ble Members on the tiptoe of expectation till the end, and thus avoid the natural tendency to sleep which a dreary recital of figures is apt to stimulate. I do not propose to have recourse to those adventitious aids for maintaining your attention. I will reveal my secret at once. The sum and substance of the position as regards normal revenue and expenditure, which it will be my business now to describe to you in greater detail, is that we can make both ends meet in 1929-30 without recourse to increased taxation and without denying money to any urgent beneficial expenditure, provided that we use the Revenue Reserve Fund, first, to correct the artificial disturbance in the normal course of receipts from salt revenue, and, secondly, to meet certain special items of expenditure of a non-recurring nature.

20. I have decided to recommend this course for several reasons:

First, I do not think that it would be justifiable to impose new taxation until it is more clearly demonstrated that there is a permanent need for it. With reasonably favourable conditions, some

of our normal sources of revenue should be capable of considerable expansion, and I think it is fair to give the plan on which the remission of provincial contributions was undertaken, the chance of another year in which to achieve its realisation.

Secondly, before imposing new taxation, I want to have a fuller opportunity of reviewing the expenditure side of the budget than has been possible in the limited time since I took over office.

Thirdly, before imposing new taxation, if that should prove necessary, I want to have ample opportunity for studying conditions throughout the country, so that I may be able to formulate proposals in the light of full knowledge of facts and opinions in such a way as to ensure that whatever is done is done in a way most beneficial to this country's interests.

But I wish to leave Hon'ble Members in no misapprehension on this matter. If additional taxation proves to be necessary in the following year, the need will have to be boldly faced. My present action is governed not by any fear of doing this, but by the desire to defer taking any step until I am quite certain, first, that it is necessary; and, secondly, what is the best direction in which to take it.

21. Having thus told you the general plan of the budget, I must explain in detail how the various pieces in the puzzle are to be fitted in.

Revenue, 1929-30.

22. Any comparisons which I make will be throughout with the revised estimates for 1928-29. In view of the abnormally large imports of sugar during the current year, it would not be safe to place the estimate of revenue from that source at more than 7 crores, which, in present conditions, may be considered a normal figure. This means a deterioration of 80 lakhs under this head alone. Further, the land customs figure will also show a reduction of 36 lakhs owing to the disappearance of the special factor which increased the revised estimate this year. On the other hand, I am budgeting for appreciable improvements under cotton piecegoods, protective special duties, excise duty on motor spirit, etc. On the whole I have assumed an improvement of 40 lakhs.

23. I have taken the estimate for next year at 16·60 crores—
Taxes on Income. an improvement of only 10 lakhs. Owing to the absence of the specially large refunds, which were the main causes of the deterioration in the current year, the figure should actually have been appreciably larger, but I have had to allow for the effect of the industrial strikes, particularly in Bombay and at Jamshedpur, which will make itself felt on the next year's collections.

24. As I have already indicated, the element of speculation, which has brought in a windfall of 65 lakhs in the current year, will lead to a corresponding reduction in the next, and I have therefore assumed a receipt of 6·35 crores only as compared with 7·65 for the current year.

25. As the House is aware, the revenue from opium is gradually diminishing as a result of the Government of India's self-denying policy whereby exports of provision opium are to be extinguished not later than 1935. We shall accordingly lose 42 lakhs next year under this head.

26. The only item which shows any important variation is that relating to currency receipts, which are expected to go up by 36 lakhs. This, of course, merely means that we get back a portion of the rather high expenditure in the current year under Interest on Debt.

Expenditure, 1929-30.

27. The net payments of interest on ordinary debt show a reduction of 1,33 lakhs, Debt Services. accounted for mainly by larger recoveries from Commercial Departments and from the Provincial Loans Fund. On the other hand, there is an increase in the charges for interest on other obligations of 95 lakhs, and an increased provision of 34 lakhs under Reduction or Avoidance of Debt. The latter includes the normal increase due to the increase of debt itself and also a larger sum for Reparation payments to which I shall refer again. As regards the other heading, namely, Interest on Other Obligations, 50 lakhs of the increase represents growth in the provision for bonus on cash certificates, and as Government's liability in regard to these certificates was made a subject of keen interest in last year's budget.

debates, I propose to go to some length now in explaining the position. The total provision to cover the bonus on the discharge of certificates which we anticipate for next year, is 1,10 lakhs against a revised estimate of 60 for the current year and an actual payment of 23 lakhs in 1927-28.

28. This is a large increase, but is it enough? I have no doubt Hon'ble Members will ask me: "What is our full liability? Are we meeting it? If not, why not?"

I think I can explain the realities of the position most clearly in the following way. Government, by issuing cash certificates, obtain the use of large sums of money; but, inasmuch as interest is payable not year by year but in a lump sum when the certificates are discharged, Government get the use of the money in the earlier years practically free of interest. One can see how this position has worked out by following the figures in past years.

In 1926-27, the average amount of money held by Government against cash certificates was 23.82 crores. The amount of bonus paid was 16 lakhs; so that the effective rate of interest paid for the use of money was only $2\frac{2}{3}$ per cent. Similar figures for 1927-28 were:

average money held, 28.69 crores;

bonus paid, 23 lakhs, equivalent to $4\frac{1}{5}$ per cent. interest;

and for 1928-29,

money held, 31.50 crores;

bonus paid, 60 lakhs, thus giving an effective rate of interest of under 2 per cent.

29. Now I wish to make it quite clear that the course hitherto followed has been strictly according to the normal system of Government accounting, for, as these accounts are made up on a cash basis, it is only the actual cash receipts and disbursements which need be taken into account each year. The system cuts both ways. Thus, in the case of cash certificates which we have been considering and which are repayable with a bonus which really represents deferred interest, the earlier years benefit at the expense of the later. On the other hand, when treasury bills are issued, the discount really represents prepaid interest and is all debited to the year in which the bills are issued, so that, if they fall

due for repayment in a later financial year, it is the later year which benefits at the expense of the earlier. If transactions are on a very large scale and not all of one kind, the net result might be expected to even itself out by the balancing of one sort of transaction against the other.

30. But, in our own case, it cannot be said that there is anything of sufficient importance to counterbalance the very large transactions in cash certificates. There is, moreover, a particular danger in continuing the present practice as regards this obligation, because, if certificates are renewed, the bonus payable at the end of five years is not actually disbursed but is carried forward with the result that the real liability may be concealed for a further five years.

31. If we turn to consider what we ought to do in the present situation, I think we may say that there is a two-fold obligation. First, we ought to provide from revenue each year a sum equivalent to a fair rate of interest on the money of which we have the use. That is our normal recurrent obligation, the meeting of which will prevent the further accumulation of arrears. Secondly, we have now weighing upon us a further obligation, that of providing for the accrued liability which is made up of the amount by which the sums paid in the past by way of bonus have fallen short of the interest which was really accruing during that period.

32. Let us see what this means as applied to the forthcoming year. I calculate that, if all the outstanding certificates are held till maturity, the interest accruing for 1929-30 on the money actually in our hands would amount to about 1,50 lakhs. Against this, we estimate that the bonus which we shall actually have to pay out in that year will be 1,10 lakhs, or 40 lakhs less. Therefore, in order to meet the double obligation to which I have referred, we ought really first, to set aside this 40 lakhs from revenue and, secondly, to provide something towards wiping off the arrears of interest which have accumulated in the past. Although it has in fact proved impossible, without extra taxation, to provide in the next year's budget for more than 1,10 lakhs—and we are thus doing something short of meeting our full current liability—I think there are two mitigating factors in the situation. In the first place, on the basis of our present estimates,

we shall have left over in the Revenue Reserve Fund at the end of next year a sum of 14 lakhs and I have in mind the possibility that this sum or any other balance that may ultimately be available should be transferred to a Suspense Account against the liability on cash certificates. In addition to this, I think we are entitled to take into account that the provision for reduction or avoidance of debt includes a sum of 30 lakhs on account of Reparation payments. This is a later accretion to the original provision for reduction or avoidance of debt which was settled on its own merits without allowing for the possibility of this windfall. Taking these two factors into account, I think we may be satisfied that our accruing liability is, if Government's position is viewed as a whole, being fairly provided for; and I am left to consider the second part of the obligation to make some provision to wipe off the accumulated arrears.

33. I think it is fair to say that this obligation should be considered together with the general obligation of Government to make provision for the writing off of their total debt. As Hon'ble Members are aware, the provisions for the existing debt redemption scheme were outlined in the Finance Department Resolution of the 9th of December 1924 and in para. 33 of my predecessor's budget speech of the 28th February 1925. This scheme is to be in force to the end of the year 1929-30 and will accordingly have to be reviewed before the estimates for the following year are framed. I have, therefore, thought it justifiable and indeed fairer to this Assembly and to the country that any provision for amortising the accrued obligation in respect of cash certificates should be considered together with the general debt redemption scheme and not super-imposed in advance upon it. Proposals, therefore, for dealing with this provision will be worked out before the presentation of next budget.

34. The group head Civil Administration shows a very large increase of 1.18 lakhs, a matter which demands a special explanation. This head includes a great number of items of a non-recurring nature, and I have already explained that it is certain of these items which can justifiably be met, for this year at least, by a draft on the Revenue Reserve Fund.

35. It is, I think, liable to be misleading that items of non-recurring expenditure of this kind should be shown without distinction, or at any rate without some concurrent explanation in the statement of the financial position presented to the Legislature at the time of the budget, and I propose to consider for next year whether we cannot give a clearer picture of the situation by separating out, in some way, extraordinary or non-recurrent, from ordinary or recurrent, expenditure. It is, of course, true that expenditure of the former kind is in one sense recurrent, because there will always be a normal flow of demands for these kinds of expenditure. But it is always possible, in a case of grave financial difficulty, to call a halt to the admission of new items of this nature, in a way which is not possible with the normal recurrent cost of the existing establishment. I shall, during the forthcoming year, devote consideration to a different method for dealing with this kind of expenditure.

36. For the present, I will call attention to certain special items which are included :

First, we have to find as much as 29 lakhs for India House in London which is expected to be completed next year so that it will not appear again.

Again, we are providing 16.4 lakhs for agricultural research of which only 1.4 lakhs represent normal recurrent expenditure and 15 lakhs represent the initial grant towards a total Endowment Fund of 25 lakhs. I hope to be able to provide the remaining 10 lakhs in 1930-31. But in the event of financial stringency, it may be possible to postpone this, and in any case, these payments represent initial payments which will not recur. As Hon'ble Members are aware, the Agricultural Commission recommended an initial Endowment Fund of 50 lakhs, but, in substitution for this, the Government of India propose to create an Endowment Fund of 25 lakhs and to supplement this with an additional voted endowment of 5 lakhs each year. Normal recurrent charges on account of staff are estimated to amount to 2.25 lakhs, so that when the full scheme is going, the normal recurring charge will be 7.25 lakhs as against the provision of 16.4 lakhs made in 1929-30.

The next item for special consideration is 20 lakhs for additional expenditure on civil aviation. This again represents very largely initial expenditure of a non-recurring nature on the preparation of ground organisation, though I feel bound to point out that if an active policy of Government encouragement to the development of civil aviation is to be carried out, there will be recurring charges under this heading. The exact amount of these recurring charges cannot be estimated until the amount of subsidy that has to be paid to the parties undertaking the service is known. The point, however, which I wish to make at present, is that, so far as concerns the present programme, it includes nothing except the estimated subsidy for six months for an overland service from Karachi to Delhi, and Government retain complete liberty of decision as regards further extensions. Our financial commitments, therefore, at the moment are still under control, and a substantial part of the item of 20 lakhs, now provided for, need not necessarily be recurring.

Apart from the above items, the head with which I am now dealing includes votes for general beneficial expenditure, such as, 5 lakhs for the additional grant to the Benares Hindu University; 2 lakhs for the Bose Research Institute; 4 lakhs for reclamation operations in the Andaman Islands; and $1\frac{3}{4}$ lakhs for special grants to the Pasteur Institute of India.

All these items to which I have referred are special items and they account for no less than 78 lakhs. It is relevant to mention that there are other items of non-recurring expenditure of a beneficial character elsewhere in the estimates, e.g., 6 lakhs for general measures for the improvement of the conditions of the poorer population of Old Delhi and $8\frac{1}{2}$ lakhs for irrigation and other development projects in the North-West Frontier Province, Baluchistan and other Minor Administrations.

37. The future efforts of Government to provide money for beneficial and constructive purposes, such as I have specially mentioned, must, of course, depend on the financial position, but I should like to take this opportunity to emphasise my own view that it would be unworthy of this country if Government did not take steps to provide themselves with revenue for meeting obligations of this nature.

Departmental transactions, 1929-30.

38. The contribution payable by the Railways to General Revenues will be 6.25 crores, inclusive of 13 lakhs on account of the one-third share of the excess over 3 crores of the amount available for transfer to the Railway Reserve Fund. The total contribution is 79 lakhs more than the revised estimate for the current year.

39. The prospects of the Indian Posts and Telegraphs Department for next year are more hopeful than is indicated by the revised estimates for 1928-29. Now that the outstanding grievances of the staff in the matter of pay and other conditions of service have been redressed, it is no longer necessary to make heavy provisions for new measures of this kind. With a moderate improvement in the revenues of the Department, it is expected to work at a loss of not more than 8 lakhs. The position is thus more satisfactory, but I regret that it still falls far short of anything which would make a reduction in postal or telegraph rates justifiable.

The Indo-European Telegraph Department is expected to show a loss of $5\frac{1}{2}$ lakhs against a loss of about $7\frac{1}{2}$ lakhs in the current year. The loss in working the two Departments together will thus be about 22 lakhs less than in 1928-29.

40. Lastly, I have to inform this House of the position as regards military expenditure. Apart from the grant of 10 lakhs to cover the Shea Committee measures in connection with the Territorial Force, to which I shall not refer again, the net demand is 55 crores. Hon'ble Members will not be surprised to see this figure, as it was indicated by Sir Basil Blackett, in introducing the budget last year, that there was no prospect of reduction for some time to come. The general situation which Government had to face in connection with the Army was also explained to this House at length in a statement and in a memorandum laid on the table by my Hon'ble friend, the Army Secretary, on the 5th of September last. I need not therefore enter into an exhaustive examination of the details of this question; but I wish to give this House a short explanation of the present position in my own words.

41. It will be remembered that in the year 1922-23 when Lord Inchcape's Committee conducted their enquiry, the

actual net expenditure on Defence amounted to 65½ crores. As a result of that enquiry, the Committee recommended that, in the following year, the scale of military expenditure should not exceed 57½ crores and that, in subsequent years, the estimates should be reduced to about 57 crores. They urged that a close watch should be kept on the details of military expenditure with the object of bringing about a progressive reduction in future, and indicated that, provided a further fall in prices took place, it might be possible to reach the figure of 50 crores.

42. The Committee's recommendations were accepted, subject to certain well-known reservations by Lord Rawlinson, and resulted in a reduction from an actual expenditure of 65½ crores in 1922-23 to 56½ crores in the following year. Slight further reductions have since been effected, and during 1927-28 and 1928-29 the expenditure has been about 55 crores. The substantial fall in prices which the Committee envisaged when they contemplated the possible reduction to 50 crores after some years, has not yet been realised, while Army expenditure to-day includes considerable additional charges due to causes which the Retrenchment Committee could not foresee—principally the necessity of improving the pay of the officers of the Army and granting passage concessions on the scale of Civil officers of Government in accordance with the recommendations of the Lee Commission. Further, the Army now pays customs duty on imported stores, and also pays the cost of all stationery and various other services rendered by other Departments of Government. These additional charges amount to approximately one crore of rupees, and were referred to by His Excellency the Commander-in-Chief in his speech in this House last March.

43. By 1926 it became evident that stringent curtailment in expenditure had produced deficiencies in certain essential equipment, and also that the Army in India was failing to keep pace with modern developments adopted by the British and other armies. For this reason, my predecessor, in introducing the budget for 1927-28, warned the House that only the strictest economy and vigilance would prevent a rise in the military budget. The House will also recollect the situation as regards the efficiency of the Army as explained to the Public Accounts Committee in 1927. Again, in

introducing last year's budget, Sir Basil Blackett reiterated his warning of the previous year.

44. The programme for the modernisation of Army equipment which was ultimately worked out was explained in the statement made by the Army Secretary to this House on the 5th September, to which I have already referred. This programme included the expansion of the Air Force by two squadrons and a provision for the modernisation of the equipment of that Force in India; also a provision for measures in connection with anti-aircraft and anti-gas regulations and for the mechanisation of the transport and of fighting units together with the repletion of the Reserves. The total cost of the full programme was estimated at 10 crores made up of 8 crores for the specific measures defined above and 2 crores to cover subsidiary requirements not yet exactly defined.

45. The revelation of these needs created a difficult financial problem. Government decided that the military budget could not, in any case, be allowed to exceed the figure of 55 crores, and that the special expenditure required must be found within the limits of that sum. Certain automatic savings were in sight, principally those due to the reduction in the pay of British troops, amounting altogether to a saving of more than one crore; and over and above these savings, the Army authorities undertook to carry out a special economy campaign in order to provide the additional money that was required.

46. Accordingly, it was possible to devise a plan which provides that if the Army budget is maintained at a figure of 55 crores for four years—starting with the year 1928-29—then, apart from any abnormal or unforeseen circumstances, the necessary special expenditure will be found within the limits of this sum. As it is impossible to forecast exactly the rate at which the new equipment will be provided and as it is important to avoid fluctuations in the military budget from year to year, it is proposed to adopt the procedure of transferring to a Suspense Account any sum within the limit of 55 crores not spent in any particular year, on the understanding that this Suspense Account can be drawn upon in subsequent years. This is really a logical corollary to the system of net grants with liberty to reappropriate savings to meet expenditure on essential new

services—a system the advantage of which, as a temporary arrangement at any rate, was recognised by the Public Accounts Committee in 1927.

47. Provided that a close check is kept throughout by the Finance Department on all expenditure, it may be claimed that there are considerable advantages in an arrangement on these lines, for it has the effect of removing all inducement to the Army authorities to rush through expenditure before the end of a financial year in order to avoid the lapsing of a particular grant. I think, indeed, that in the carrying out of such a programme of re-equipment as I have explained above, it is essential to have some provision of this nature for equalising the actual appropriations over a period of years. A further advantageous result which, according to my information, the experience of the working of the arrangement since last summer has demonstrated, is that it results in the whole-hearted co-operation between the Army authorities and the Finance Department in the search for all possible economies, for the Army authorities know that the completion of the programme of re-equipment is dependent on the discovery of such economies. I am glad to be able to take this opportunity of testifying to the helpful attitude adopted by the Army authorities in this matter.

48. In order to show how the arrangement is actually working out, I may state that for the current year, 1928-29, the expenditure on normal standing charges of the Army will be 53½ crores, leaving approximately 1½ crores which will have been devoted to the special programme. It is further estimated for 1929-30 that the ordinary maintenance charges in the Army will amount to 52·94 crores, leaving a margin of 2·06 crores for expenditure on the special programme.

49. The normal cost of the standing military charges is thus being steadily cut down and it is, therefore, possible to hold out a very definite hope that when the four years' programme of re-equipment is completed, that is to say, after the year 1931-32, the total military budget will, apart from any circumstances which cannot at present be foreseen, be substantially reduced. It would be unwise for me at present to commit Government to promising a definite figure, but I can assure the House that the Finance Department will exercise the closest scrutiny of the execution of the programme.

50. Although these ultimate savings are in sight, I am fully conscious that the House must share with me, as a Finance Member on the threshold of his term of office, a feeling of disappointment that no immediate relief for the budget can be obtained from the economies which are really being effected in the standing military charges of the Army. It will, however, at least be something of an achievement if an important programme for modernising the equipment of the Army, costing about 10 crores, can be carried through in 4 years without an increase in the budgetary provision. Moreover, it can be definitely stated that when the programme is completed, the country will be provided with a more efficient force at a smaller cost. To give the country better value for its money must indeed be the key-note of our policy. To this extent at least, I hope that all can agree that the programme which I have outlined is a move in the right direction—a direction in which future progress must constantly and energetically be sought.

51. I wish to make it clear that, in giving the explanation which I have just completed, my object has been to lay the facts as fully as possible before this House and to indicate to them the programme which Government have in mind. At the same time, there will be no change in the existing system of financial control, while Government are under no binding obligation in the matter. Unforeseen circumstances, such as an acute financial crisis, or constitutional changes occurring before the programme is completed, might modify its execution. If, however, circumstances remain normal, it is the settled intention of Government to work upon the lines which I have explained.

52. The more important variations from the revised estimate may now be summarised as follows :—

	(In lakhs of rupees.)	
	Better.	Worse.
Revenue from Customs	40	..
Revenue from Salt . . . . .	..	1,30
Revenue from Opium . . . . .	..	42
Revenue from Currency	36	..
Expenditure on account of Civil Administration . . . . .	..	1,18
Net contributions from Railways	79	..
Loss on the working of the Posts and Telegraphs Department	22	..
Other heads . . . . .	..	7
Total	1,77	2,97
Net		1,20

The net result for 1929-30 is therefore 1,20 lakhs worse than for 1928-29, or in other words, instead of the surplus of 30 lakhs, which the revised estimates show for the current year, we shall have to make up a balance of 90 lakhs in 1929-30 from other sources.

53. If it had not been for the fact that 1928-29 has gained 65 lakhs from salt revenue at the expense of 1929-30, the latter would actually have shown, on balance, an improvement of 10 lakhs over 1928-29, and the amount required to balance next year's budget would have been no more than 25 lakhs. Taking this into consideration, and in view also of the fact that the Civil Administration estimates this year contain a number of special items to which I have already referred and some of which need not necessarily be repeated, I have, as already explained, thought it justifiable to provide the necessary balance from the Revenue Reserve Fund and to defer any question of imposing new taxation. The Revenue Reserve Fund, as already explained, is expected to stand at 1,04 lakhs on the 31st March 1929, so that, by providing from this source the sum of 90 lakhs which is required to balance the budget for 1929-30, there will still remain a balance of 14 lakhs left in the Fund at the close of that year.

54. I have dealt so far with the normal budgetary situation and have left one particular proposal till the end. The Finance Bill, which I shall very shortly beg leave to introduce, contains a provision, necessitated by the recommendations of the Indian Road Development Committee, for the increase, from 4 to 6 annas per gallon, of the import and excise duties on motor spirit. The additional revenue expected to be realised on this account is 6 lakhs in the current year and 83 lakhs in the next. These amounts have, accordingly, to be added to the estimates of customs revenue which I have already mentioned to the House. But there will also be a corresponding addition to the charges under the Civil Works head, representing block grants of the same amounts, which will be credited to a Road Development Fund from which disbursements will be made from time to time to Provincial Governments and others on the general lines recommended by the Committee. I have to make it clear that this is a measure of taxation which is

not designed for the advantage of the general revenues of the Central Government but for a specific purpose which has been unanimously recommended by the Committee, and which, I have no doubt, will be welcomed by this House. The Committee, as I might remind Hon'ble Members, was appointed in consequence of a resolution moved in the Council of State. It consisted of 14 members of the two Chambers including representatives of all parties and of the Government, and it was presided over by my Hon'ble and learned friend, Mr. Jayakar, to whom I should like to take this opportunity of expressing my sincere admiration for the manner in which he accomplished his task. The subject is of great importance for the economic, social and political progress of the country generally and of the rural population in particular. It is a subject on which many divergent views are held, and it is complicated by the constitutional relations of the Central and Provincial Governments. Nevertheless, the Committee has submitted unanimous recommendations which appear to be generally acceptable, practical in their immediate application, and charged with far-reaching possibilities of future development.

The report has an added, though indeed a sad, interest in that it was signed by the late Lala Lajpat Rai, who gave much time and labour, in co-operation with representatives of all other parties and of Government, to this constructive effort for the welfare of the country.

55. The main figures of the budget, after allowing for the transfers to and from the Revenue Reserve Fund and for the additional taxation and its disposal just referred to, stand as follows :—

(In crores of rupees.)		
	Revised	Budget
Revenue	1,31.20	1,34.06
Expenditure	1,31.20	1,34.06

WAYS AND MEANS.

56. I must now turn to a review of the ways and means position, and before I give any detailed account of the probable results for the current year and of my forecast of requirements for the forthcoming year, I wish to attempt some general review of the situation. It would be natural for me to do this at the commencement of my term of office. But, quite apart from this, I think the

time has arrived when it is necessary to take stock of our position—to stand back and take a view of the progress over the past years and of the course upon which we are set.

57. The dominating feature that strikes the eye when one turns to review the course of past years is the great amount of capital development which has been achieved with a comparatively small increase in the public debt of Government.

58. Let me give certain figures illustrating the position. In the five years from the 1st April 1923 to the 31st March 1928, Government undertook capital expenditure amounting to about Rs. 1,20 crores and about £49½ millions. As against this sum, they raised, by way of loans to the public, a net amount (by which expression I mean the net proceeds of the new loans less the amount of old loans and treasury bills paid off) of about Rs. 12 crores and about £13 millions. That is to say, during these five years, sums of no less than Rs. 1,08 crores and £36½ millions were provided from sources other than an increase in what is generally known as the public debt. Of the total amount of the capital expenditure to which I have referred, by far the greater part is accounted for by expenditure on the railways, the amount here being Rs. 69 crores and £48½ millions. Other capital works account for Rs. 12 crores and about £3½ million; and Advances to the Provincial Loans Fund, Rs. 39 crores.

59. The question which Hon'ble Members will naturally ask is, from what sources the rest of this money has been provided and whether it is possible to rely on these sources to the same extent in the future.

To give figures which are exact in every detail would involve a very long and complicated statement. It will be sufficient for my present purpose to give approximate figures of the main headings which I may state as follows :

Post Office Cash Certificates and Post Office Savings Bank deposits	37	crores.
Other Savings Bank deposits	19½	"
Revenue surpluses (including those in Revenue Reserve Fund)	12	"
Provision for reduction or avoidance of debt	22½	"
Other appropriations from revenue	3	"
Reduction in opening cash balance in India	16½	"
Depreciation and Reserve Funds	25½	"
Provident Fund balances from Railway companies	9	"
Gain by Exchange	7½	"

These items together amount to 1,52½ crores, and out of this sum the balance of 1,08 crores to which I have already referred, has been found, leaving a surplus of 44½ crores. The balance of sterling capital expenditure of £36½ millions to which I have already referred, has been found by the remittance of this surplus of 44½ crores supplemented by a reduction of £4½ millions in the sterling balances.

60. These results indicate a remarkable achievement and a very great strengthening of the intrinsic position of the country and the security which it can offer for future loans. The provision which has been made from revenue, and even the utilisation of the Railway Reserve and Depreciation Funds, to which I shall have occasion to refer again, represent a process which, to use a commercial expression, amounts to the "putting back of surplus earnings into the business" which is the process by which most sound and prosperous undertakings are built up.

61. At the same time, an examination of the figures which I have quoted does force one, in giving consideration to the future, to ask whether the resources which have thus been relied on in the past to supplement borrowing, will be available in the same measure in the future. It is clear that, to some extent at least, this cannot be the case. Government balances have been reduced to the lowest reasonable level; budget surpluses for the future can hardly be counted on to the same extent; the sale of cash certificates shows a progressive diminution year by year, though, as far as this is concerned, the result does not necessarily indicate that the money that was provided through this channel may not be available for investment in Government securities in some other form, now that the yield on such other securities has improved relatively to that on cash certificates. As regards the use of Railway Reserve and Depreciation Funds, and the maintenance of the accretions to the funds on the same scale, this of course raises debatable issues into which I cannot fully enter now, but which must be further discussed during the examination of the Railway Convention which is to take place this year.

For my present purpose, it is sufficient to draw, from the review which I have given, the conclusion that Government must be prepared in the future for

having to raise a larger proportion of their capital expenditure in the form of public loans. There is an obvious corollary to this, viz., that we must keep our capital expenditure under effective control and be watchful to limit it in accordance with the amounts which we can provide without over-straining the credit of Government in the open market.

62. I shall have something more to say later on the general policy affecting Government loans, but before doing this, I wish to explain the ways and means position for the current year and next year. An examination of the position for these two years confirms the conclusion to which my survey up to this point has led me.

In 1928-29, it was already necessary to resort to borrowing on a larger scale and the forecast that was presented with the budget for the year proved to have under-estimated the needs in this direction.

63. I have prepared a summary, in the usual form, of the ways and means position for the current year and next year :—

	(In crores of rupees.)	
	Revised, 1928-29.	Budget, 1929-30.
<i>Liabilities.</i>		
Railway capital outlay (construction)	26.0	26.5
Purchase of Railways	4.0	7.0
Other Capital outlay	1.7	2.1
Provincial Governments' transactions	12.1	7.2
Discharge of public debt (net)	19.9	3.9
Other transactions (net)	4	1.4
Total	64.1	48.1
<i>Resources.</i>		
Rupee loan (net)	33.8	18.0
Sterling loan (net)	12.1	7.0
Postal Cash Certificates and Savings Bank	3.7	5.3
Other unfunded debt	4.0	4.0
Debt redemption	5.6	6.0
Depreciation and Reserve Funds	6.3	5.8
Reduction of cash balances	—2.3	1.1
Total	64.1	48.1

64. Dealing with the current year, the following are the main items of interest. The opening balance, taking India and England together, turned out to be 4 crores less than estimated a year ago. This was because actual issues of treasury bills in March last were $1\frac{1}{2}$ crores less,

and railway capital expenditure was $2\frac{1}{2}$ crores more, than contemplated. The position during the year has also worked out worse than was anticipated. First, railway capital expenditure again threatened substantially to exceed the original estimate, and, in spite of an application of the brake in August, is likely to amount to 26 crores instead of 24 crores as estimated; secondly, the net receipts from cash certificates have latterly shown signs of falling off as I have already explained; lastly, the weather conditions referred to at the outset of my speech have resulted in considerably larger drawings by certain Provinces. All these factors combined made it necessary to strengthen the position temporarily by the issue of sterling bills in August for £6 millions and eventually to provide for a more permanent reinforcement by the issue of a $4\frac{1}{2}$ per cent. loan in January last in London for £10 millions at 91. The proceeds of this loan will be directly used to pay off the sterling bills and to meet the purchase price for the Burma Railways.

65. Apart from this transaction, events followed closely the course anticipated. The rupee loan issued in July was successfully launched in the form of a $4\frac{1}{2}$ per cent. 1955-60 Loan and $4\frac{1}{2}$ per cent. 1934 Bonds, which brought in 9.06 crores (nominal) and 25.98 crores (nominal) respectively, or a net total of 33.8 crores. It will be seen from what I have said that the current year has already provided an illustration of the need for increased borrowing, if a programme of capital expenditure on the present scale is to be continued. But there are certain special points to which attention should be called.

First, the capital expenditure included 4 crores for the purchase of the Burma Railways which may be regarded in a sense as an artificial addition to normal needs; secondly, even for this year with its larger sterling and rupee loans, the net amount borrowed from the public in India and England together in the form of loans and treasury bills, after allowing for discharges and conversions, has only been 26 crores as against an aggregate capital outlay of just under 44 crores for Central Government's capital expenditure and drawings by Provinces. The treasury bills outstanding with the public, which, according to the budget estimates of the current year, should have stood at 9 crores, are now expected

to be reduced to 6.95 crores at the close of the current year. It will be my endeavour further to reduce the outstandings of treasury bills so that these do not remain a permanent feature in the local money market conditions.

On the whole, it may, I think, fairly be claimed that Government, in spite of difficulties, find themselves at the close of the current year in a stronger position than they held at the beginning.

66. I can now turn to consider the prospects for 1929-30. The task with which I found myself faced was this. The Railways—our chief consumers of capital—were in the course of executing a large programme containing many projects. Their organisation for carrying out new construction had been developed to a point at which they could get on expeditiously with all the work in hand, in fact so expeditiously that for the current year and the two preceding years they had substantially overspent their allotment. On top of this, notice had been given that Government would exercise their right to purchase the Southern Punjab Railway on the 31st December 1929, which meant finding £5½ millions in sterling payments. Further, the Provinces were likely to require their normal ration of capital, with a prospect that this might have to be increased in order to provide for loans to cultivators in those areas where the crops had failed. The chief question which those responsible for the finances of the country had to ask themselves in these circumstances, was whether it was desirable to attempt any sudden and drastic restriction in the capital programme of the Railways. A close examination of the position revealed that this would be, on almost every ground, undesirable. A programme of railway development, once it has got under way, cannot suddenly be interrupted without great waste. One commitment leads to another. New branch lines bring more traffic and this means that trunk lines have to be strengthened. Heavier trains must be drawn, which means relaying with heavier rails, rebuilding or strengthening bridges, purchasing heavier locomotives. The heavier locomotives bring the need for remodeling or rebuilding repair shops. And so it goes on. If the programme is not carried to completion, the full economic value of the work in the first stages is lost.

67. Apart from this, it seemed to me very undesirable that, at a time when the

general state of industry and trade in the country is at least somewhat below par, public expenditure on work which gives a great deal of local employment should be suddenly and drastically cut down.

68. On the other hand, I have kept constantly before me the conclusions which my earlier review of the situation has revealed, and, in framing a programme for next year, my guiding rule of policy has been this—that, while avoiding hasty action or serious dislocation of current work, we must get the course of capital expenditure well under control so that its pace can be regulated according to financial conditions, and so that, in case of difficulty, it can be slowed down without involving any damaging jar to the machine.

69. In the end, we have provided, as has been indicated in the figures which I have already given, for a capital expenditure of 26½ crores on the railways—a substantial sum—but the real feature in the programme is this; that the bulk of the money is to go on the execution of current work and that new commitments have been cut down to a minimum. There could thus, if necessary, be a substantial reduction in 1930-31, while measures have been adopted to ensure that the allotment for 1929-30 will not be overspent. On the other hand, work is being continued on a scale which avoids the necessity of any general dismissal of construction staff, so that, if at the beginning of 1930, prospects are not unfavourable, new projects can again expeditiously be put in hand. The working off of old commitments which is taking place this year, will mean that, if anything like the same amount of capital can be provided next year, a far larger proportion will be available for taking up fresh projects for new lines.

70. The result of the whole programme as now settled is that, allowing for a reduction in Public Debt of just under 4 crores—in treasury bills and sterling obligations—we shall require to raise a total new loan of 18 crores. On top of this there is the £5½ millions to be found for the purchase of the Southern Punjab Railway, and as this represents the taking over of a sterling obligation which is already in existence, I have shown in my forecast that it will be met by a sterling loan. The situation, however, as far as concerns next year, is really better than I have shown, because, according to the agreement with the Southern Punjab Railway, although the purchase price becomes due on the 31st

December 1929, the actual payment can be postponed for another four months at 3 per cent. interest. It is therefore not at all improbable that this obligation will not affect our ways and means position until 1930-31. As regards the 18 crores to which I have referred, the question whether the whole of this sum will be found by the issue of a rupee loan in India or whether a part, large or small, will be raised in the form of a sterling loan in England is one which will be settled in the way which best suits India's interests, having regard to the conditions which are found to prevail. If there has been any apprehension lest Government's needs for borrowing next year might have a seriously disturbing effect on the market for Government securities, I think this forecast should allay it. The raising of a total sum of 18 crores, either here or in London, should, with normal conditions, ~~be~~ ^{be} no difficulties. These considerations bring me to the much larger question of the whole borrowing policy of Government, on which I feel it important to make some general remarks in order to clear away misunderstandings.

But before embarking on this wider issue, I will complete my account of the particular transactions for the current year and for next year.

71. A year ago it was estimated that ~~we should require to~~ ^{Home remittances} remit £36 millions to London in 1928-29. Imports of sovereigns from South Africa, which were presented at our Currency offices between the 15th November 1928 and the 15th January 1929 amounted to about £1.8 millions, and, apart from this, imports of treasure have, on the whole, been on a somewhat larger scale than during last year. This has affected our power to remit the full amount by means of sterling purchases in the open market. The raising of a sterling loan in January, which I have already referred to, has reduced the amount which must be remitted in the current year to £29½ millions, of which up to the 20th of February we have succeeded in remitting just under £26 millions. On the assumption that the sterling payment for the Southern Punjab Railway will be met by means of a sterling loan next year, the amount required to be remitted to London in order to enable the Secretary of State to close with a normal working balance is now estimated at £35½ millions.

72. I must now revert to a general review of Government's borrowing policy. I have recently read numerous press criticisms on this matter and many exhortations from well-wishers who have offered me guidance as to my tasks and opportunities. I read all these with interest and some with gratitude, for even those that are couched in unpleasant language are at least stimulating. But when I am told that the Government of India must abstain altogether from borrowing, I can only feel that such advice ignores realities.

73. In considering policy on this matter, there are two main questions to answer. First, are Government to continue to encourage an active policy of economic development? Secondly, how is the necessary money to be raised?

74. I can hardly imagine that any one could answer the first question with an unqualified negative. Capital expenditure which has been undertaken in the past five years, particularly on railway development or irrigation, has proved remunerative and greatly to the benefit of the country. Such a policy, provided the schemes are wisely chosen and well executed, must help towards the result which we all desire and on which the prosperity of India can be most firmly founded, namely, the improvement of the power of production and of the standard of life for the vast rural population of this country, which must be the basis and foundation for prosperity in the industrial centres also. Quite apart from this, as I have already said, it would be particularly unfortunate if works of this kind had to be drastically cut down during the present period of depression of which we have heard so much in debates during this session. But, while I would press forward a wise development policy with the greatest keenness, I must also recall the words of warning which I have already used, and avoid any course which might overstrain the credit of the country. The future requires the difficult combination of enterprise and caution; enthusiasm and self-control.

75. On the second question, as to how the necessary money should be raised, I entirely agree in principle with the policy which was advocated by my predecessor that Government finance should be based as far as possible on attracting rupee capital in India. It is only in so far as money cannot be raised from the investing public in India that I should ever

consider having recourse to sterling borrowing. I wish to leave no shadow of doubt on this matter. How far it is possible to follow out this policy depends almost entirely on the people of India. If all the money which now goes to the import of treasure was to be made available for investment in productive undertakings, India's needs for foreign capital might well disappear. Even in the forthcoming year, with a large capital expenditure programme, we need to raise only 18 crores from the public against which may be set the fact that the average net imports of treasure since the War, excluding the abnormally high figures for 1924-25, have been more than twice as large in value.

76. This is a well-worn subject and I do not wish to dwell on it further. It calls for action rather than words. I fully recognise the difficulties, and that Government cannot expect to get the small men all over India to invest their savings except as a result of a steady course of education and the provision of better facilities. This is a matter on which I hope our Banking Enquiry will throw light. In any case, it is one of our main tasks for the future. If I can do anything in this respect, I shall only be following in the footsteps of my predecessor, and, if I might pay him a tribute, I would say that perhaps his greatest work in a wonderful record of achievement was the stimulus which he gave to the fruitful employment of the savings of the Indian public in the development of India's resources. But however enthusiastic one may be about this idea, one must face practical realities. Conditions cannot be changed in a day, and if there are times when the whole capital required to continue a reasonable policy of development cannot be raised in India, then I can see no valid reason for refusing to have recourse to moderate loans abroad. It would, in my opinion, be a far greater evil to hold up the proper development of the country merely for the sake of avoiding all sterling borrowing, however moderate the amount. It seems to me, judging by comments which have appeared in the press and from remarks which have fallen from Hon'ble Members opposite in the course of debates during this session when the general condition of the country was under discussion, that there is a good deal of misapprehension on the subject. It has been implied, for example, that the policy involves India

in borrowing at ruinous rates for the sole advantage of England. There could be no greater misapprehension. We can still borrow at very reasonable rates, while, so far as advantage to British interests is concerned, it must be remembered that the total amount that can be raised on the London market is strictly limited, so that, if India did not appear as a borrower, her place would easily be filled. In fact, the difficulty lies rather on the other side, namely, how to find room, in the limited number of issues that can be permitted, for all those who want to provide themselves with funds.

77. In all business relations it is desirable that there should be mutual advantage; but I am quite certain that in this particular relation, the balance of advantage lies on the side of India in that she has so privileged a position among the borrowers who seek funds in the London market.

78. A second misapprehension which also appears prevalent is that it is derogatory to the dignity of a country, or evidence of a weakness of its position, that it should have recourse to external loans. But this is an essential condition of any country in the early stages of its development, and, in this sense, India still is in the early stage of her economic development.

Even a wealthy and highly-developed country like the United States, until the Great War, got large sums of investors' money from the London Market for financing railway development projects and other enterprises of this kind. It has been estimated that in 1914 British investments in the United States, chiefly in railways, amounted to something like £760 millions. Moreover, all the great Dominions are constant borrowers in the London market. A large proportion of the railways of South America have been built with capital raised in England, while Japan, whose political and economic progress is ever held up as an example, has been a large borrower both in London and in New York, and, I might add, has her loans quoted on a 6 per cent. basis in London, and a 6½ per cent. basis in New York, as compared with the 5 per cent. rate at which India gets her money.

79. Further, I think that there is a good deal of misapprehension as to the extent to which India's sterling indebtedness has had to be increased during the past years. In an earlier part of my speech, I gave

some figures as to borrowings in the five years ending the 31st March 1928. Let me carry these figures down to the end of the current year, so as to include a year of comparatively heavy borrowing. In the six years ending with the 31st March 1929, capital expenditure abroad will have amounted to £60 millions. Against this, loans producing net amounts of £18 millions in 1923-24, of £6,862,500 at the end of 1927 and of £9,100,000 in the last loan issued in January have been raised on the London market. But on the other side, permanent sterling debt has been discharged regularly each year over this whole period in the form of railway annuities and otherwise. The final result is that, although according to the figures which I have just given, a capital expenditure of £60 millions has been undertaken, the net balance raised by the increase of sterling funded debt has only been just under £20 millions. This sum must be still further reduced when it is taken into account that the sterling expenditure includes the purchase of the Burma Railways at £3 millions. By this transaction, sterling securities were cancelled so that the net amount of foreign capital on which India as a whole has to find interest in foreign currency has really only been increased to the extent of the loans necessary to raise £17 millions.

80. In order to complete the picture, it is necessary also to take into account any reduction which has taken place in sterling resources. Sterling treasury balances were reduced during this period by about £4½ millions, while transfers of sterling from the Paper Currency Reserve amounted on balance, during the same period, to about £3½ millions.

I think it is no small achievement and demonstrates the strength of the rupee exchange position that this very large amount of capital expenditure abroad has been effected with so small an increase of external indebtedness.

81. I must also add a few words on one more heading in connection with this matter. Even if the amount of our borrowing had been much larger, it would not have been out of proportion to the undertaking for which the Government of India are responsible, seeing that they have to finance practically the whole railway and port system of this vast continent which contains one-fifth of the population of the world, and also to provide money for irrigation and other development projects. Government borrow-

ing may cover many purposes, and in some cases it may be a sign of weakness. But the borrowing by the Government of India, of which I have been speaking, and which we have to contemplate for the future, indicates rather an increase in strength. For whatever is borrowed will be more than covered by sound productive investments producing a larger revenue than is required to meet the interest charges. This leads me to the consideration that it may be desirable for the future to devise some means for so presenting our demands for new money as to demonstrate more clearly to the public the purposes for which the money is to be applied and the inherent strength of the position.

82. While this may indicate one important line for future consideration, our main task must still be to seek for every possible means to educate and provide opportunities for the people of this country so that they may let their savings flow into productive channels. There is room for much effort still in this direction and even a moderate success may eliminate the need for external borrowing. But if, before this goal is reached, some such borrowing is necessary, I trust that Hon'ble Members will help me in this matter by taking a view of the situation uncoloured by political prejudices.

83. I have only a few more words to say as to the debt position. Prices of Government securities. Following the practice of previous years, I quote the market prices of certain typical securities of the Government of India in India.

Market price on the 20th February											
	1923.	1924.	1925.	1926.	1927.	1928.	1929.				
	Rs.	A.	Rs.	A.	Rs.	A.	Rs.	A.	Rs.	A.	Rs.
5 per cent. Tax free loan, 1945-55.	89	8	97	12	97	15	101	4	107	2	106
											11
											103
											15
8½ per cent rupee loan	58	0	65	14	60	0	71	0	77	7	70
											1
											72
											6

Prices, of course, are now much lower than the peak figure of 1927. But they are still substantially higher than in 1926 or the earlier years, and I think the review which I gave earlier in my speech will show that prices which ruled in 1927 and the beginning of 1928 were, in a sense, an artificial result of the abnormal abstention from borrowing which had been possible in the preceding years. The process of decline is always unpleasant, but there is at least this to be said, that the higher prices of two years

ago drove some investors to seek better yields abroad, and that, taking a broad view, we may be now on a healthier level.

84. I must also refer to debt statistics. My predecessor used to embody in his budget speech a statement showing the debt of India outstanding at the close of a series of years. I find, from the general discussions which took place in this House last year on the budget, that a desire was expressed that the figures might be shown in a somewhat different form, and I have this year endeavoured to produce a statement of a more comprehensive nature. To the list of obligations I have added the depreciation and reserve funds and those portions of provincial balances which bear interest. To the list of productive assets shown in previous years I have added the interest-bearing loans made to the public. At the same time, in order to give as complete a picture as possible, I have added the amounts of cash, bullion and securities held on Treasury account. Although I have tried to meet Hon'ble Members' wishes in this matter, I must warn them that it is extremely difficult to compile any statement which gives a complete picture of the situation. The statement which I have given makes no claim to be a complete balance-sheet. Moreover, there are many special factors which tend to confuse the picture. For example, if a loan to raise £9,100,000 is brought out on a $4\frac{1}{2}$ per cent. basis at 91, the figure for our obligations in the table is shown as £10 millions. Had a loan to raise the same amount taken the form of a 5 per cent. loan brought out at par, the increase in our debt would only have appeared as £9,100,000. Further, although I have now included among Government's obligations the balances which they hold from the Railways on account of the Reserve and Depreciation Funds, these are, in reality, obligations of a different type from Government's obligations on account of loans raised from the public. Although the Railways can be regarded as something separate from Government, nevertheless, in the case of the Reserve Fund, for example, this is really, in a sense, held for the benefit of Government in order to ensure the payment of the railway contribution in bad years.

85. I mention these facts merely to show Hon'ble Members that it is difficult to provide a statement which is not open to some criticism on one side or the

other. I can only say that it is my desire that they should be provided with the fullest possible information; and if there is any difficulty in understanding the tables which I have given or in reconciling the particular table to which I am referring with the summaries which I have given in the earlier part of my speech, I should be willing to give further explanations. The table, as it stands, at least reveals that behind the public debt of India, there is being built up an ever increasing backing of valuable security.

86. Sir, my course which, I fear, has been a very long one, is nearly run. I have only one more obstacle to negotiate and then I can take a straight run home. I feel that Hon'ble Members would think I was shirking a part of my task if I did not refer to the ratio question, for I must do those who have raised the question in recent debates in this House at least the honour of taking them seriously. At this late hour I want to be brief and I wish also to avoid saying anything which will provoke controversial retorts. Therefore, I leave unsaid much that I could say with force and conviction and will confine myself to one simple aspect of the matter.

87. I am fully conscious that there are those in this Assembly who honestly and honourably advocated the view that the rupee ought to be stabilised at 1s. 4d. when the issue was still an open one, and the country in a sense had a free choice before it. I do not seek to convince any of those who took this course that they were wrong,—though this involves no admission on my part, and is, as the lawyers say, entirely “without prejudice”. I would put to them a much simpler question: Can it seriously be proposed, as a practical course, that after working on a basis of 1s. 6d. for several years—a basis actually fixed by statute since 1927—that this Government could deliberately decide to devalorise their currency by 11 per cent.? I shun all forms of over-statement, but I can hardly conceive the possibility of any more disastrous course. It would cause injustice to thousands of individuals who had entered into previous contracts, among whom perhaps the most important are the workers, manual or otherwise, whose wages and pay have been fixed on a different basis, and it would strike a blow at the credit of India in the eyes of the world from which it could hardly

recover. For, what guarantee would other countries have that a word once broken would not be broken again? All the arguments which are used for advocating a drop from 1s. 6d. to 1s. 4d. could be used with equal force for further inflation and further depreciation of the currency.

88. I have never seen any practical suggestion made as to how such a change could be brought about; but I feel sure that any man who really understands the working of these matters will realise that whether it were to be done by a stroke of the pen over-night, or allowed to take place as a result of a long period of weakness on the part of Government, the results would be equally dislocating and disastrous.

89. I sympathise whole-heartedly with those who, like my Hon'ble friend, Pandit Madan Mohan Malaviya, have expressed, in terms of great eloquence, their burning desire to improve the economic condition of the people. But I would say to him that the only way in which that can be done is by the constant and combined effort of Government and all those who can influence public opinion, directed to the extension of education and credit facilities, to the encouragement of hard work and thrift, and to an increase in real wealth by the introduction of improved methods of cultivation and communications. Anything else is no more than a quack remedy.

90. I do not deny that if Government were to adopt a deliberate policy of inflation and depreciation of the currency, that might act as a temporary stimulant, for it would induce a period of rising internal prices which is always encouraging to trade and it would also bring about a reduction in real wages which would benefit employers of labour making goods for export. But experience in many countries since the War is available to illustrate how dangerous is the use of such a stimulant and what disastrous reactions it may produce. For it cannot go on for ever, and it is only during the period when currency values are falling that the stimulant works. When a fixed level is reached again, prices must eventually adjust themselves and the plodding task of normal business has to be resumed once more.

91. Some of those who have spoken on this subject have likened the present financial conditions of India to the state of a sick man, who needs some remedy. It may be said, I suppose, that upon

myself as directing to some degree the finances of the country, there falls the heavy responsibility of the doctor. The doctor's calling is a noble and difficult one and perhaps its duties have never been better put than in the words of the oath which Hippocrates, the Greek philosopher and scientist, who lived more than two thousand years ago, made his disciples swear. Let me repeat some of its words:—

"I swear by all gods and goddesses that I will, according to my power and judgment, make good this oath and covenant that I sign. I will use all ways of medical treatment that shall be for the advantage of the sufferers, according to my power and judgment, and will protect them from injury and injustice. Nor will I give to any man, though I be asked to give it, any deadly drug; nor will I consent that it should be given; but purely and holily I will keep guard on my life and my art."

Sir, I would willingly accept no less binding vows, but, if I were to listen to those who advocate inflation and depreciation of the currency as a remedy for the present state of this country, I should be untrue to such an oath. Then, indeed, should I be administering a deadly drug.

92. But let me ask: Is the country really suffering from any sudden and new disease? Are we not really in danger of exaggeration when such words are used? Judged by all ordinary standards—figures of foreign trade, railway returns, etc.,—India is more than keeping her place in comparison with other countries. Depression in trade is prevalent throughout the world and I venture to say that there is distress in other countries to day, equal to, or greater than, that which is felt in India and attributable, like much of India's trouble, to world causes. I fully accept the statement which I have heard in this House that the standard of living among the rural population of India is miserably low, and I yield to no Member on the other side in my keenness to take a hand in a joint effort to remedy it. But this is no sudden and new phenomenon. No one can point to the particular date when the rupee was stabilised at 1s. 6d. and say truthfully: "This is the date when it began; before this we all lived in a golden age."

93. Sir, there is one condition above all others which is requisite for commercial prosperity and that is a condition of security. If this talk about reducing the ratio is taken seriously, it can only produce a feeling of uncertainty and insecurity and, amongst other unfortunate results, it must tend to induce those who can do so, to invest their money abroad.

94. I cannot believe that it really is taken seriously by the bulk of the business world, but still, talk by responsible Members of this House cannot be without some effect. Therefore, I would appeal to those who have urged a contrary course and say to them: "You have done your best for what you thought right. Whether the course actually taken was right or wrong, it would be a far greater evil now to alter it and Government are bound to use all the resources at their command to prevent its alteration. The time has come therefore to look to the future in which the interests of the country demand, above everything, that we should pull together to work out our salvation on the present level." Response to such an appeal would bring honour to all who accorded it.

95. There is another ground on which I would urge on all those that have the public interest at heart to make an end of this talk which ascribes every evil to the 1s. 6d. rupee and holds out a 1s. 4d. rupee as the magic remedy which would bring prosperity to all. Such talk is harmful because it diverts men's minds from efforts to pursue the hard path to any real improvement. Let us rather unite to forge our way along this path, and, for my part, I promise to spare no effort and to reject no sound suggestions which can help to clear it.

96. Sir, I have tried to present to-day
 Conclusion, a plain and unvarnished statement of facts—
 disguising none of the difficulties and exaggerating none of the favourable features. The note which I have wished to strike in my speech and to embody in my budget proposals is that we must look at the state of the country with a broad vision and not rush into sudden measures on the influence of what may be only a temporary condition.

If one looks back over the past six years, one cannot fail to be struck by the great inherent strength exhibited in the position. On the side of capital expenditure, I have quoted figures to show how enormously the productive assets of the country have been increased in proportion to the loan liabilities incurred. A broad view of the revenue position is also encouraging. When one considers all the revenue which has been sacrificed by the Central Government in the past six years in order to give greater latitude to the Provinces or to provide some

economic advantage to the country—nearly 10 crores of provincial contributions given up, and in taxation 1½ crores on cotton excise, 85 lakhs on machinery, 1½ crores on opium, to mention only the most important cases—and when one then realises how the other sources of revenue have moved towards filling the gap, I think one is justified in feeling confidence as to the future. It might perhaps be said that the rate of capital expenditure has recently shown tendencies to acquire too great an acceleration or rather, to put the matter in another way, Government have not increased their fixed capital (that is to say, money at their disposal from long-term loans) quite sufficiently in proportion to the expansion of the business. Possibly also, sacrifices of revenue have been based on expectations which, for the moment, may prove too optimistic. With these possibilities in mind, I would say that we are passing through a period which needs a steady hand on expenditure and the careful conservation of our credit and that, combined with this, there is also needed some broadening of the basis on which the capital, which is required for the development of this vast continent, is to be provided. These objects will be my chief concern and I shall pursue them with all the more confidence and enthusiasm because of my firm conviction that the financial position of this country is fundamentally sound and that there can be no country in the world which has better security to offer for its loans.

97. Sir, I have only one more word to say. I have expressed in my last sentences the confidence which I feel in the economic foundations of this country. But there is one thing on which those foundations must rest, and that is political stability. I have deliberately refrained from disturbing my account of the economic position up to this point by any extraneous considerations, nor do I wish to appear as preaching to this Assembly on a subject which might be held to be outside my sphere. But I have set myself the task of describing the situation exactly as I see it, and this task I must complete. India till now has had one priceless possession in her credit with the outside world. I believe, for such reasons as I have tried to make clear to-day, that the economic advancement of the country depends on the maintenance and use of this credit both within and without. Fears of political disturbance cannot but shake it, and to

do this is to endanger the structure on which the material welfare of the millions of this country depends. I pray that this vital consideration may not be forgotten. Having said this, let me close, as I began, on a personal note. Though it is my fate to deal with finance and the production of wealth, I do not, any more than many Hon'ble Members opposite, place materialistic objects above all other ends in this world. Nevertheless, an adequate measure of material well-being is a necessary condition of happiness in any state. I trust that even those whose thoughts are

mainly concentrated on political objectives which may range them at times against the Government of which I am a Member, will not forget this fact, and will find in the economic sphere some common ground on which we can co-operate for the material advancement of the Indian people. Is it too much to hope that such co-operation may have its reactions also in wider spheres? The money with which I have to deal suffers from the material limitation that what is spent is gone, but goodwill is inexhaustible and the more that is expended, the greater will be the supply.

GEORGE SCHUSTER.

The 28th February 1929.

*Statement showing the interest-bearing obligations of the Government of India,
outstanding at the close of each financial year.*

	31st March 1923.	31st March 1924.	31st March 1925.	31st March 1926.	31st March 1927.	31st March 1928.	31st March 1929.
<i>In India</i>	(In crores of rupees.)						
Loans (a)	339.83	358.81	370.38	368.29	374.44	372.25	390.41
Treasury Bills in the hands of the public	21.59	2.12	..	..	..	7.59	6.95
Treasury Bills in the Paper Currency Reserve	49.65	49.65	49.65	49.65	41.47	31.94	39.15
Other Obligations—							
Post Office Savings Banks	23.20	24.70	25.64	27.23	29.51	32.07	34.74
Cash Certificates	3.13	8.42	13.12	20.96	26.68	30.70	32.30
Provident Funds, etc.	36.17	39.00	42.39	46.36	51.02	55.82	60.42
Depreciation and Reserve Funds . . . . .	..	..	9.08	15.45	20.10	25.48	31.85
Provincial Balances (b)	2.86	4.17	4.83	11.87	10.40	10.48	8.09
Total Loans, etc.	411.07	410.58	420.03	417.94	415.91	411.78	436.71
Total Other Obligations	65.36	76.38	95.06	121.87	137.80	155.15	167.40
Total in India	476.43	486.96	515.09	539.81	553.71	566.93	604.11
<i>In England :</i>	(In millions of £.)						
Loans (a)	222.92	244.53	263.39 ^(c)	266.35 ^(e)	265.09	272.32	282.05
War Contribution	19.71	19.27	18.81	18.32	17.81	17.28	16.72
Capital value of liabilities undergoing redemption by way of terminable railway annuities	61.31	60.10	58.84	57.53	56.19	54.79	53.35
Provident Funds, etc. . . . .	.04	.13	.16	.21	.27	.19	.42
Total in England	303.98	324.03	341.20	342.41	339.36	344.58	352.54
Equivalent at 1s. 6d. to the Rupee	405.31	432.04	454.93	456.55	452.48	459.41	470.06
Total Interest-bearing obligations	881.74	919.00	970.02	996.36	1,006.19	1,026.37	1,074.16
Productive assets held against the above obligations :							
(i) Capital advanced to Railways	517.22	537.02	578.05 ^(d)	605.61 ^(f)	635.46	668.60	698.60
(ii) Capital advanced to other Commercial Departments	19.43	20.07	22.00	17.77	19.10	20.60	21.75
(iii) Capital advanced to Provinces	87.49	97.56	106.43	114.60	120.17	126.34	136.95
(iv) Capital advanced to Indian States and other interest-bearing loans	8.90	8.93	10.16	11.84	12.11	13.01	15.43
Total Productive assets	633.04	663.58	716.64	749.82	786.90	829.45	872.73
Cash, bullion and securities held on Treasury account	44.80	50.47	57.35	51.96	37.48	24.26	30.57
Balance of total obligations not covered by above assets	203.90	204.95	196.03	194.58	181.81	172.66	170.86

(a) These figures represent the nominal amounts of loans outstanding and also include comparatively small amounts of expired loans which do not bear interest.

(b) The figures represent those portions of provincial balances which bear interest either because they form part of the old Famine Insurance Fund or the present Famine Relief Fund or because they have been placed with the Government of India on fixed deposit.

(c) Includes the liability assumed by the Secretary of State for East Indian Railway Debenture Stock, aggregating £18½ millions, on the termination of the contract with that Railway on the 1st January 1925. It therefore does not represent any increase in the foreign indebtedness of the country as a whole.

(d) Includes 27.07 crores on account of the liability referred to in (c) above.

(e) Includes the liability assumed by the Secretary of State for the Great Indian Peninsula Railway Debenture Stock, aggregating £3½ millions, on the termination of the contract with that Railway on the 1st July 1925. *vide* also last sentence under (c) above.

(f) Includes 4.88 crores on account of the liability referred to in (e) above.